CHAPTER 40

INCOME TAX WITHHOLDING

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Chapter 40

Income Tax Withholding

This chapter provides general information on the procedures for federal and state income tax for Emergency Firefighters (EFF). Specific information can be attained from your local state or federal offices.

The Internal Revenue Service (IRS) requires that federal and state income tax be withheld from EFF wages. Per the AD Pay Plan, Section E, Conditions of Hire, #18, Federal Insurance Contributions Act (26 U.S.C. 3121 (b) (6) (C), emergency service is exempt from the withholding of Social Security and Medicare.

Hiring units/officials are responsible for obtaining income tax withholding forms and submitting the original documentation to ADO/APT. This will be done during preseason training, fitness testing or upon hire. **All EFF will be afforded the opportunity to complete federal and state income tax withholding forms.**

ADOs will not make any corrections to the tax withholding forms, nor make any assumptions when entering data. Incomplete or incorrect forms will be returned to the hiring unit. Only the original forms are valid, copies are not acceptable.

Income tax withholding forms should be entered into EFF-PAY upon receipt.

Personal information to establish a payroll record in EFF-PAY is determined by the information provided on the W-4. This information includes: social security number (SSN), name and address. If the hired-at-state is not known, EFF-PAY will default to the address state. Unless otherwise noted, the hired-at-location is the same as the hiring unit identifier. These entries can be changed during the EFF-PAY Processing Procedures. (Refer to EFF-PAY User Manual, Chapter 1.)

A SSN or an Individual Taxpayer Identification Number (ITIN) is required to process an OF-288. SSN are issued to U.S. citizens and legal aliens by the Social Security Administration (SSA). An ITIN is issued to individuals who are not eligible to obtain a SSN, but must furnish a taxpayer identification number to the IRS.

Hiring units should instruct EFF who do not provide a SSN or an ITIN to:

a. Contact the local SSA to obtain a SSN. A number usually is assigned within 24 hours and the original card is mailed to the individual's home address in approximately two weeks.
b. Complete Application for IRS Individual Taxpayer Identification Number, Form W-7, to obtain an ITIN. Local IRS offices will accept this form for walk-ins, or the form can be mailed to the IRS. Obtaining an ITIN could take 4 - 6 weeks.

Changes to personal information in EFF-PAY can only be made upon receipt of a new W-4, with the exception of the address. Address changes can also be documented on the OF-288. If an OF-288 is received with ***"CHANGE OF ADDRESS"*** signed by the EFF:

a. Change the payroll record.
b. Document the change on the W-4, initial and date.
c. Attach a copy of the OF-288 to the W-4.

ADOs should generate monthly and/or per agency requirements, a Tax Information Report to be distributed to hiring units/officials. The Tax Information Report will provide current information regarding Federal and state income tax withholding and EIC. Information from the income tax withholding forms should be verified against the Tax Information Report to ensure correct information has been entered into EFF-PAY. (Refer to EFF-PAY User Manual, Chapter 13.)

If an OF-288 is processed by an ADO from other than the originating office, it is not necessary to have a copy of the income tax withholding form on file. The EFF-PAY data

screen will indicate which office has the most current form on file. Refer to the "TAX" information line on the data input screen and the EFF-PAY Information website, ADO Contact List, to determine the ADO with the most current information.

EFF-PAY calculates taxes based on the number of days from the starting date to the ending date on the OF-288, using the IRS formula for biweekly (1 - 14 inclusive days) or monthly (15 inclusive days and over). Salary will be annualized by EFF-PAY.

41 Employee's Withholding Allowance Certificate, Form W-4

If an individual does not complete a W-4, the payroll system will default to the highest standard income tax withholding amount allowed (single marital status with "0" exemptions). ***Failure to file income tax withholding forms will not delay payroll processing.***

W-4s are valid indefinitely, except for individuals who file exempt from Federal income tax. Completion of a new W-4 is required upon:

a. Initial hire.
b. Annually, if filing exempt.
c. Change in legal name.
d. Change in income tax withholding status.

Changes in income tax withholding status will not be retroactive, but will take effect when received/processed by the payment office.

AFS User Support will generate a letter (Exhibit 76-1) by February 15th to advise individuals that "exempt" W-4s received in the previous calendar year have expired. Individuals are instructed to contact their local hiring unit to complete a new W-4 or federal income tax withholding will be deducted at the highest allowable rate.

The IRS requires W-4s be retained four years past the last payroll date. The originating office is required to maintain W-4 records to ensure compliance with IRS requirements.

41.1 Data Entry

The EFF-PAY User Manual will guide you step by step through the data input process. Refer to EFF-PAY User Manual, Chapter 11.

a. ADOs will enter W-4 information into EFF-PAY as it is received and/or prior to processing payrolls.
    1. Claims exempt on line 7, enter “Y”. No further entry for Federal taxes is required.
    2. Individual does not claim exempt on line 7, enter “N” and complete Marital Status, Number of Exemptions, etc. on line 3, 5, and 6.
    3. Individual claims exempt on line 7, but also completes marital status and exemptions, do not enter anything. Return the form to the hiring unit. EFF-PAY will default to single with “0” exemptions.
    4. No W-4 received, do not enter anything. EFF-PAY will default to single with “0” exemptions.

b. Accurate entry of W-4 data into EFF-PAY is critical. Inaccurate data entry may result in incorrect income tax withholding and possible tax adjustments.

c. ADOs will confirm data entry accuracy by comparing the W-4 against the Tax Information Report.

d. Stamp the W-4 with the Tax Information stamp and complete:
    1. Date received, initials.
    2. Date entered, initials.
    3. Date report verified, initials.

41.2 Filing

Recommend establishing a Master File Binder to retain W-4 records.

a. File W-4s in the Master File alphabetically. Secure them in the same area as ADO payroll records.
b. At the end of the calendar year:
    1. Pull W-4s with exempt status and file them with the year end payroll data.
    2. Pull W-4s that have been superseded by a new W-4 (name change, income tax withholding status) and file them with the year end payroll data.

42 State Income Tax Withholding

Individuals are required to complete state income tax withholding forms:

a. As required by state law.
b. Upon initial hire.
c. In the event of a legal name change.
d. Upon change in income tax withholding status.

Changes in income tax withholding status will not be retroactive, but will take effect when received/processed by the payment office.

State income tax withholding information is maintained by the originating payment office for four years past the last payroll date.

If no state tax information is received, EFF-PAY will default to the hired at state and apply the highest standard income tax withholding amount allowed for that state.

The EFF Payroll Information website contains a link to state income tax withholding forms, requirements and information. This link can be found by accessing the BLM-Alaska Fire Service website at fire.ak.blm.gov.

Individuals may request taxes withheld from a state other than the hired at state by providing the appropriate state income tax form or other documentation. For example:

a. Hired in Alaska, but claims residence in California and wants California state income taxes withheld.
b. Hired in Oregon (taxable state), but claims Nevada (non-taxing state) as residence.

State laws vary. Differences between states include, but are not limited to:

a. Calculation of income tax withholdings based on marital status and number of exemptions vs. percentages.
b. Gross earnings vs. Federal income tax withholding amounts.
c. Allowance of exemption from state tax.
d. Forms to claim income tax withholding allowances and exemption from taxes.
e. Requirements to update income tax withholding information. Most states require individuals who claim exempt from state income tax withholding, to submit a new form each year.
f. Submission of tax withholding forms to state agencies.

EFF-PAY accommodates requests to withhold taxes for two different states.

Each state has its own laws and forms for claiming exemption from state taxes for Native Americans living in Indian country. If the EFF is claiming exemption from state income tax withholding based on residency, enrollment and/or place of employment, they are responsible for:

a. Filing the appropriate forms with the state from which they are mobilized.
b. Providing a copy of the state form to the hiring unit, who will forward it to the ADO/APT.

The “mobilization point” will be used as the place of employment. If the EFF lives in Indian country, provides copies of the appropriate state forms and is mobilized from Indian country, exemption from state withholding can be claimed.

Some states do not recognize exemption from state income tax regardless of the circumstances. To ensure state income tax is not deducted from an individual who meets above eligibility requirements, in EFF-PAY enter:

a. Exempt from state tax = “N”.
b. Marital status, leave blank.
c. Number of exemptions = “77".
d. Explain reason for exemption in the comment field.

AFS User Support will generate a letter (Exhibit 46-1) by February 15th to advise individuals who file “exempt” from state income tax withholding to verify their state’s regulations and to contact their local hiring unit to complete new documents, if required.

42.1 Data Entry

The EFF-PAY User Manual will guide you step by step through the data input process. Refer to EFF-PAY User Manual, Chapter 11.

a. ADOs will enter state income tax information as it is received and/or prior to processing payrolls.
b. No state income tax withholding , do not enter anything. EFF-PAY will default to the state requirement.
c. Accurate entry of state income tax withholding information into EFF-PAY is critical. Inaccurate data entry may result in incorrect income tax withholding and possible tax adjustments.
d. ADOs will confirm data entry accuracy by comparing the state income tax withholding form against the Tax Information Report.
e. Stamp the state income tax withholding form with the Tax Information stamp and complete:

1. Date received, initials.
2. Date entered, initials.
3. Date report verified, initials.

42.2 Filing

Recommend establishing a Master File Binder to retain state income tax withholding forms.

a. File the state income tax withholding documents in the State Income Tax Master File alphabetically. Secure them in the same area as ADO payroll records.

a. At the end of the calendar year:
   1. Pull the state income tax withholding documents that have expired and file them with the year end payroll data.
   2. Pull state income tax withholding forms that have been superseded by a new form (name change, income tax withholding status) and file them with the year end payroll data.

43 Earned Income Credit Advance Payment Certificate (EIC), Form W-5

EIC reduces the tax owed for individuals who meet eligibility requirements (annual salary, qualifying child). The W-5 explains eligibility criteria.

Hiring units/officials are responsible for obtaining W-5s and submitting them to the ADO/APT. W-5s expire at the end of each calendar year, individuals must be given the opportunity annually to file a new W-5.

Federal income tax withholding status does not effect an individual's eligibility for EIC. An individual may claim exempt from Federal income tax withholding, file a W-5, and receive EIC.

ADOs should not be concerned with discrepancies between the information on the W-5 and other tax documents. The IRS is responsible for determining eligibility.

EFF-PAY will annualize the salary, pay EIC appropriately, and track EIC paid year to date.

43.1 Data Entry

The EFF-PAY User Manual will guide you step by step through the data input process. Refer to EFF-PAY User Manual, Chapter 11.

***EO**: Household income meets eligibility requirements. Employee only one claiming EIC through his/her employer.*

***ES**: Household income meets eligibility requirements. Employee and spouse both claim EIC through their employer.*

a. ADOs will enter W-5 information into EFF-PAY as it is received and/or prior to processing payrolls.
   1. #1 checked "NO" — No entry required
   2. #1 checked "YES", #2 checked "NO" — No entry required
   3. #1 and #2 checked "YES" — Entry required
      - and #3 checked "NO" — Enter EO
      - and #3 checked "YES", #4 checked "NO" — Enter EO
      - and #3 and #4 checked "YES" — Enter ES

b. Accurate entry of W-5 data into EFF-PAY is critical. Inaccurate data may result in incorrect pay calculations and may result in possible adjustments.

c. ADOs will confirm data entry by comparing the W-5 against the Tax Information Report.

43.2 Filing

Recommend establishing a W-5 binder and label with the current year. File W-5s alphabetically and store with the current year payroll records. W-5s are retained for four years.

44 Form W-2, Wage and Tax Statement

As required by law, a W-2 will be mailed to all EFF by January 31st for the prior calendar years earnings (i.e., A W-2 for 1999 earnings will be mailed by January 31, 2000.) The W-2 documents all earnings and reportable deductions processed through EFF-PAY.

User Support will compile the tax information for all agencies and forward the information to NBC. NBC will print and mail the W-2s to the EFF.

44.1 Audit Payroll Records

Each agency will review their payroll records prior to User Support creating the tax file that will be sent to NBC. By selecting #8 on the report menu, EFF-PAY will create a report which lists all EFF (alphabetically) paid by your office code (i.e., AFS-328).

ADO/APT will audit the report to ensure:

a. No multiple SSNs for an individual.
b. Names are spelled correctly.
c. Addresses include street or post office box number, city, state and zip code.

User Support will notify the ADO/APT of the date requirements.

44.2 W-2 Records

W-2s with incorrect addresses will be returned to the Alaska Fire Service (AFS). AFS will also maintain the duplicate copy of the W-2.

ADO/APTs contacted by an EFF that did not receive a W-2 or requests a change of address will:

a. Review the address on record.
b. Advise the EFF to contact AFS, Office Services.

AFS Office Services will resend the undeliverable W-2 or process a duplicate upon written request from the EFF. Office Services will notify User Support of the change of address.

ADO/APTs will advise EFF requesting SSN changes or corrections of incorrect amounts reported on the W-2 to contact AFS, Office Services. Office Services will collect the required information for User Support. User Support will make the necessary corrections in EFF-PAY and forward the information to NBC. NBC will issue a corrected W-2.

AFS, Office Services can be contacted by fax at (907) 356-5697 or by mail (refer to Chapter 20 for the address), Attn: AK-328D. **Telephone requests will not be accepted under any conditions.**

The EFF must provide in writing:

a. Full name.
b. Permanent mailing address.
c. Telephone number.
d. The reason for the request.

45 Agency Supplemental Information

46 Agency Exhibits